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“Restructuring” the Soviet Workplace: The New State Enterprise Law

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An Intelligence Assessment

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“Restructuring” the Soviet Workplace: The New State Enterprise Law

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An Intelligence Assessment

This paper was prepared by [] the
Office of Soviet Analysis. Comments and queries are
welcome and may be directed to the Chief,
Domestic Policy Division, SOVA, []

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**“Restructuring” the Soviet
Workplace: The New State
Enterprise Law**

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Key Judgments

*Information available
as of 13 May 1987
was used in this report.*

The strength of the Gorbachev regime’s commitment to economic reform will undergo a key test this summer when the Supreme Soviet is scheduled to approve a new law on Soviet enterprises. The leadership released a draft version of the law in February 1987 and authorized an extraordinary public discussion of it. The ensuing public debate has highlighted a number of weaknesses that, if uncorrected, would subvert the law’s intent.

Soviet reformers have much at stake in the law. Gorbachev and his supporters have touted it as the centerpiece of his effort to “restructure” the economy. They hope that it will significantly increase the autonomy of state enterprises, long dominated by their supervising ministries, and give managers and workers greater incentive to improve enterprise performance. It will replace a 1965 law that had similar goals but was eventually undermined by a lack of strong leadership backing and the refusal of the ministries to loosen their rein. The draft law contains new sanctions against ministerial interference, but the effectiveness of these sanctions is at best uncertain.

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The difficult history and the contentious public debate it has generated testify to both the political significance and controversial nature of the law. Originally slated for completion last year, the draft apparently was delayed by resistance from the ministries and was remanded by the Politburo for additional work. The document that finally emerged reflects many of Gorbachev’s ideas but is an obvious product of political compromise that leaves both the “reformers” and their opponents room for further maneuvering.

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Among the victories for reform advocates are provisions that:

- Call for the election of enterprise managers (subject to confirmation by “superior organs”) and the creation of elected “labor collective councils” to represent the workers’ interests. Such measures, not in the 1965 law, respond to Gorbachev’s recent calls for “democratization” and worker “self-management.”
- Make explicit the state’s right to close down enterprises that operate at a loss. This unprecedented “bankruptcy” provision has been pushed by some reform economists as an essential ingredient of true “financial autonomy.”

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- Endorse the wider dissemination of rights previously granted only to selected enterprises. These rights would enable the enterprises to deal more directly with their suppliers, rather than funnel their requirements through Moscow, and keep a larger percentage of their profits for investment and incentives. []

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Unless the draft is strengthened during the amendment process, however, its ambiguity and vague language, combined with a continued reliance on centrally determined output goals, could severely limit the enforceability of many of its provisions and lead to the same fate that befell the 1965 law.

For example:

- Although claiming to expand an enterprise's rights to make production decisions without ministerial interference, the draft law also enjoins ministries to "closely monitor" enterprise activities—a function that in the past has led to micromanagement.
- The draft provides enterprises with mechanisms for redress when ministries overstep their bounds; however, the burden of proof will be on the enterprises, and it is uncertain whether managers will risk challenging their superiors so openly.
- Although it endorses the wider adoption of such principles as "wholesale trade" and "self-financing," the draft contains no new language that would either strengthen the earlier decrees on these issues or enforce their broader application.
- The draft makes no real progress toward Gorbachev's announced goal of "flexible" pricing—an essential step if enterprise managers are to make progress toward a more rational use of their resources. []

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The draft law affects the interests of all key economic actors. Government ministers, most of whom hold membership in the Central Committee, are understandably reluctant to relinquish some of their authority, given their continued accountability for the performance of subordinate enterprises. Not all enterprise managers are eager to assume the responsibility that will come with their increased authority, and workers probably fear that allowing unprofitable firms to go bankrupt will threaten their job security. Workers and managers alike seem unconvinced of the merits of several initiatives, including a new quality-control system and multiple work shifts, which the new law endorses. []

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The idea of electing factory managers is especially controversial. Although workers seem to applaud the notion, the managers themselves have already made their reservations known. Some party conservatives also may fear that allowing workers a role in choosing their bosses will begin a process of worker involvement that could lead to something approaching genuine unionization. []

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In sum, the draft law gives Gorbachev room to push his ideas further but does not guarantee his ability to do so. One early and visible test of his mettle will be his success in using the current public "debate" of the draft to give it more teeth before its adoption as law at the next Supreme Soviet session, after its approval at a Central Committee plenum on economic management that Gorbachev has called for this June. Another will be the content of new regulations for the government ministries, which are also expected to be discussed at the plenum. Meanwhile, Gorbachev seems to be using the debate of the draft to lay the groundwork for the plenum discussions. That debate has now widened to include proposals that challenge the basic precepts of a planned economy and that have placed the most conservative opponents of reform on the defensive. []

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“Restructuring” the Soviet Workplace: The New State Enterprise Law

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A key element of Mikhail Gorbachev's strategy to reinvigorate the Soviet economy has been his effort to increase the authority and responsibility of enterprise managers. By giving them more authority in day-to-day management, he hopes to transform an economy that has been tightly controlled by the bureaucrats in Moscow into one that will be more “self-regulating” and efficient. By increasing the managers' responsibility for enterprise performance and giving them more incentive to improve it, he hopes to give a much-needed boost to productivity. Enterprises will be more productive, he reasons, if their relationship to the ministries is changed from one of administrative subordination to one of economic accountability. This will allow enterprises to base their decisions on profit motives, rather than merely to follow orders handed down from the ministries. []

The long-awaited centerpiece of this effort—a new Law on State Enterprises—was approved in draft form at the January 1987 Central Committee plenum. It was released for public discussion in February and is scheduled for adoption at the next session of the Supreme Soviet after its approval at a Central Committee plenum Gorbachev has called for this June. It will replace a 1965 law that also was intended to increase enterprise autonomy but was eventually undermined by the leadership's efforts to ensure that enterprise actions were compatible with national objectives and by the ministries' reluctance to loosen their rein. To help avoid this fate, Gorbachev included some sanctions in the new law that are intended to prevent the ministries from circumventing its intent. []

Originally slated for completion in 1986, the draft apparently encountered resistance from the ministries and was remanded by the Politburo for additional work. The document that finally emerged reflects many of Gorbachev's ideas but is an obvious product of political compromise that leaves both the “reformers” and their opponents room for further maneuvering. []

As currently written, the draft for the most part reads more like a “declaration of independence” for Soviet enterprises than a law with enforceable provisions. It endorses a number of Gorbachev-backed ideas encompassed in earlier decrees, which had applied to only a small number of enterprises or contained other restrictions limiting their impact. The draft's endorsement of the widespread application of these ideas is a victory for Gorbachev, but its vagueness concerning implementation leaves considerable doubt about its ultimate impact. []

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Protection of Enterprise Rights

The ambiguity of the draft language is illustrated by its assertions on the legal rights of enterprises. The draft gives the enterprises the right to make decisions on “all production and social questions” that are not expressly precluded by law, while specifying that the ministries can exercise only those powers expressly granted by law. At the same time, however, the ministries are instructed to closely “monitor” enterprise activities—a function that in the past has led to micromanagement.¹ The 1965 law had similarly instructed economic agencies to “ensure strict observance of the rights of enterprises” and had told them that they could revise an enterprise's plan “only in exceptional cases”—provisions that have been routinely violated ever since. Unlike the 1965 law, the new draft provides the enterprises with mechanisms for redress when the ministries overstep their bounds. The burden of proof, however, will be on the enterprises, and it remains to be seen whether they will risk so openly challenging their superiors (see appendix A). []

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¹ Aleksandr Levikov, the economics editor of *Literaturnaya Gazeta*, recently called for “relieving ministries of responsibility for the results of enterprises' activity” and observed that it was “illogical” to ask ministries to take a hands-off attitude toward subordinate enterprises while continuing to hold them accountable for enterprise performance. []

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The 1965 Law

The "Law on the Socialist State Production Enterprise," issued in October 1965, was one of many regulations designed to implement an economic reform introduced by Premier Kosygin. As spelled out by Kosygin in September 1965, that reform consisted of: an administrative reorganization of the bureaucracy; some decentralization of planning and decisionmaking functions from the ministries to the enterprises; a change in success criteria for enterprises; a revision of wholesale prices; and a reform of the industrial supply system. []

The fate of the 1965 law was largely determined by the government bureaucracy, which reacted to reform, in Gertrude Schroeder's words, "merely by doing what comes naturally to large, entrenched bureaucracies anywhere when they are threatened with change—that is, procrastinating, assimilating, complicating and regulating."^a Because the ministries continued to be held responsible for the performance of subordinate enterprises, they continued to exercise "petty tutelage" and effectively nullified much of the new freedom of the enterprises. []

^a See "Soviet Economic Reform at an Impasse," *Problems of Communism*, July-August 1971. []

The law was also subverted by central authorities' later efforts to ensure that enterprise actions were compatible with traditional economic and ideological objectives. For example, the freedom of enterprise managers to determine average wages and to use incentive funds as they saw fit was curtailed by subsequent decrees issued when Moscow became concerned that wage outlays were growing faster than productivity and that white-collar workers were benefiting disproportionately from bonus payments. []

Implementation of the law also suffered from a lack of strong leadership backing. Its initiator, Kosygin, became increasingly overshadowed by Brezhnev, who lacked Kosygin's commitment to the law and to economic reform in general. The climate for a decentralization of economic decision making became even less favorable after the Czechoslovak "spring" of 1968, which underscored the political risks of reform. Consequently, neither the law nor the larger economic reform was ever implemented as initially intended. []

the very essence of this law could be emasculated. It would not be the first time for us. And we all know to what extent our ministries and the planning and finance bodies can forbid and not allow. []

"Self-Management"

The draft law most clearly breaks new ground in calling for greater worker participation in the management of enterprises, a concept first articulated by Gorbachev at the party congress last year and pushed vigorously at the January 1987 plenum. If adopted, the draft law would for the first time legalize the "democratic" election of managers by workers

The vagueness of the draft's provisions on the legal rights of enterprises already has led some managers to express their reservations about the effectiveness of the draft as currently written. One of the strongest criticisms has come from Nikolay Travkin, a construction-trust leader who had previously won Gorbachev's public praise as an effective manager. Speaking at the trade union congress in February, Travkin complained:

The draft law sins with its excessive declarations. There are very many truisms there. But as regards specific rights of enterprises in management and planning, the plans are not formulated clearly. . . . There is much here that has been left unsaid. And it is far from harmless. Because sloppiness in the formulation could leave a loophole so that later on, with the aid of instructions, clarifications, and various clauses,

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Figure 1. Gorbachev meets
with managers and workers at
a steel plant.

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throughout the Soviet Union. Unlike the 1965 law, which specified that managers were to be appointed by their superiors, the new draft calls for the election of enterprise directors for five-year terms and lower level managers for two- or three-year terms at regularly scheduled meetings of workers. Between these meetings, the workers' interests are to be represented by an elected "labor collective's council," which is to operate primarily in an advisory capacity but also is to have some decisionmaking authority in the utilization of enterprise funds.

A Law on Labor Collectives, adopted in 1983, had no provision for the establishment of such councils. Although it called for greater participation by workers in the decisions affecting them, their interests were to be represented during the periods between general meetings by enterprise management and elected bodies of party, trade union, and Komsomol organizations. Judging from the remarks of Gorbachev and other leaders, the labor collectives law has been ineffective in fostering a sense of greater worker involvement in enterprise decision making, and the establishment of the councils apparently is an attempt to remedy that situation.

The clear intent of Gorbachev's effort is to give Soviet workers a greater sense of participation in management decisions and, hence, of their own responsibility for enterprise performance. As *Izvestiya* noted in a recent editorial, workers will no longer be able to blame their poor performance on a poor leader, "because they will have elected him themselves." Another intent may be to increase the pressure "from below" on enterprise managers to improve their performance.

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Gorbachev is attempting to balance his objective of giving workers a stake in the success of the plant and his desire to maintain an ultimate political veto over the selection of managers. In his speech at the January plenum, he took pains to reassure the Central Committee that his intent is to enhance—not to weaken—the "one-man management" principle of enterprises. Limits on the free selection of managers are suggested by the draft's requirement that elected directors be "confirmed" by superior organs, and lower level managers, by enterprise leaders. The experience of the best known Soviet experiment in the

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Figure 2. A cynical Soviet view of how the ministers' behavior has changed as a result of Gorbachev's "restructuring" effort. In the top frame, the minister is signing a stack of instructions, orders, and directives for subordinate enterprises. In the bottom frame, he is adding the words "on restructuring" to every directive. The caption reads: "Now let them say I'm failing to keep pace with life!"



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Совет трудового коллектива

Разговор о рабочем самоуправлении, начатый деловой встречей в Академии народного хозяйства при Совете Министров СССР, вызвал живой отклик читателей. Почта последних дней показывает: эта тема продолжает волновать многих. Единой точки зрения на проблему нет. Сегодня мы продолжаем своеобразное заочное собрание читателей.



Figure 3. A Soviet cartoon criticizes the lack of worker participation in enterprise decision making. The chairman of the production meeting announces to the cringing workers: "So, we have decided!"

Sotsialisticheskaya Industriya ©

election of enterprise managers—at the Lenin Machine-Building Plant in Voronezh—also suggests that the party will remain a strong force in the selection of suitable candidates.² [redacted]

If Gorbachev is serious about giving the workers a sense of input into managerial decisions, he will have to back enforcement measures that would inevitably challenge the principle of one-man management and heighten concern among the managerial elite. Conversely, if Moscow's efforts to limit worker participation become too obvious, they will increase the very cynicism among workers that this move is designed to overcome. [redacted]

Bankruptcy

Another unique and controversial feature of the draft law is its provision allowing for the liquidation of enterprises that have been working at a loss for a prolonged period. Although the 1965 law had spelled

² At the Voronezh plant, a selection commission is formed from representatives of the party, trade union, Komsomol, plant management, and leading production workers, but the composition of the commission must be approved by the plant's party committee. The commission selects its nominee by secret ballot and then passes its recommendation to the plant's party committee, which in turn sends its recommendation to enterprise management. [redacted]

out the procedure for abolishing an enterprise, its elimination was not expressly associated with bankruptcy. The appearance of this new provision follows several weeks of published arguments by Soviet economists that the possibility of bankruptcy should not be excluded under socialism, especially now that enterprises are to become more financially autonomous. One of those economists, Otto Latsis, even made a favorable reference to the experience in Hungary, where several insolvent enterprises recently were shut down. [redacted]

In response to the Soviet workers' sensitivities about threats to their job security, Latsis and others have been careful to note that the dissolution of enterprises will be a much more humane process under socialism than it is under capitalism and will fully provide for the needs of the affected workers. Anticipating the workers' concerns about the bankruptcy provision, the draft specifies that workers at plants that are shut down are to be given two months' notice and that they will continue to receive their wages (for up to three months) while seeking new employment. These provisions are similar to those that were enacted in November 1985 for workers affected by Gorbachev's reorganization of the agro-industrial sector. [redacted]

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Debating the Limits of Democracy

The mechanics of the proposed election procedures have not yet been determined and have become the subject of a lively public debate. During one recent exchange, an enterprise director complained that workers in large plants would not be sufficiently familiar with the candidates for director to make an informed selection. He said that the ministry should submit candidates for the post of director. When someone asked how this would differ from current practice, he replied that there should be at least two candidates—from the ministry and from the collective. Another director suggested that workers be given the right to choose only low-level managers and that the right to decide other cadre questions be given to a director chosen and appointed by the ministry. Still another director asked what was to become of the enterprise's "reserve" (workers identified as potential managers and being groomed as such) and suggested that contenders be selected only from that group. The Soviet account of the debate concluded that "everyone was agreed that election was necessary but no one knew exactly how to do it."

TASS recently announced the closing of a Leningrad construction trust that had been operating at a loss, noting that "even older people cannot recall any such bankruptcies occurring in the USSR." The bankruptcy provision, however, may not be widely invoked. The law specifies that enterprise activities "may" be terminated if an enterprise has a "long record of losses" and only after all measures to correct the situation have failed. Soviet economists recognize that some enterprises, whose products have been assigned artificially low prices, must operate at a loss through no fault of their own. And even when poor management is to blame, Soviet officials will be reluctant to incur the costs—dislocations of labor and disruptions of supply and distribution plans—of shutting down enterprises that fail to make a profit. More important, as long as prices are administratively determined, there will be no effective guideposts to determine whether enterprises should be liquidated. Permitting bankruptcies without adopting a market-based set of

prices reflecting relative scarcities could eliminate those enterprises that would make the most efficient use of resources.

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Modernization

The draft also endorses Gorbachev's call for multiple shifts at state enterprises to facilitate the dismantling of obsolete equipment and the development of more modern facilities. According to the draft, this work system is to be adopted as the standard for all state enterprises, although exceptions may be granted by superior organs. Gorbachev's determination to implement this system across the board—despite the difficulties experienced at factories where it has been tried—is testimony to his strong commitment to modernization. The transition to multiple work shifts is placing an enormous burden on the transportation and services sectors and has proved so unpopular that the bonuses for those working the second and third shifts have had to be increased.³ Even if the supporting services prove up to the task, however, it is not yet clear whether Gorbachev's gamble will have a significant payoff. Closing half of a factory for renovation will put an additional strain on the already burdened machinery in the other half, and, judging from stories at those plants that have made the transition, the skilled technicians needed to repair the broken equipment are sometimes in short supply.⁴

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³ In 1972 a differential of 20 percent of the base rate for night-shift work (10 p.m. to 6 a.m.) was authorized for most industries (50 percent in the textile and bread-baking industries). In February 1987, however, the night-shift differential was increased to 40 percent of the base rate for most industries, and a new 20-percent differential was authorized for those working an "evening" shift.

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⁴ Skepticism about the benefits of the multishift system was apparent in the audience reaction to a lecture by an engineer whose enterprise had switched to the system. One audience member was overheard saying, "It will take at least 10 years to work this system out," and another asked the speaker if a study had been made to determine whether the system was really appropriate in the factories where it was being instituted. (The lecturer's response: "Look, we were directed by the party to institute the system and not to study whether it was appropriate or not.")

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Figure 4. Soviet workers discuss the draft law on state enterprises. [redacted]

Sotsialisticheskaya Industriya ©

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Quality Control

An equally controversial Gorbachev initiative—the new “state acceptance” system of quality control—is also endorsed in the draft, which calls on enterprises to “assist” the work of the State Acceptance Service in addition to strengthening their own quality control. Under this new system, which was introduced at 1,500 plants earlier this year, quality control is monitored by representatives of an independent service as a check on the factory’s own quality review. The State Acceptance Service’s more stringent standards generally produce a higher rejection rate. These standards may ultimately improve product quality, but, in the short term, they make it more difficult for a factory to reach its planned output targets and for workers to receive their bonuses, which are based on plan fulfillment.⁵ In his speech to the January 1987 Central

⁵ According to the Soviet press, strict control by State Acceptance Service workers was a significant reason for the poor industrial output figures in January and February 1987. [redacted]

Committee plenum, Gorbachev complained that introduction of the system had been strongly resisted—to the point of work stoppages—at Soviet factories. While Gorbachev seems committed to the new system, several economists have been openly critical, worrying that it may succeed only in creating yet another bureaucracy. [redacted]

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Financial Autonomy

Although the draft specifies that all enterprises are to operate on the principle of “full financial autonomy,” some enterprises will continue to be “more autonomous” than others, with few coming anywhere close to the goal of genuine self-financing. For that goal to be achieved, an enterprise would have to be allowed to keep all of its profits, from which it would finance all of its planned expenditures, including investment.

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For now, the enterprises coming closest to this ideal will be those included in 1987 in an expansion of the so-called Sumy experiment, which allows a select number of enterprises to keep a larger percentage of their profits for technology, reequipment, incentives, and other purposes.⁶ These conditions, which Soviet officials describe as "full financial autonomy," are to be gradually extended to all industrial enterprises.

As in the case of permitting bankruptcies, however, rational decisionmaking on such questions as the level of investment and wage incentives would require completely flexible prices that reflect relative resource costs and buyer preferences. In the absence of a market-determined price mechanism, the level and distribution of profits will be arbitrary, and investments will be misallocated.

Planning

The limits of enterprise autonomy are probably most apparent in the draft's planning section, which specifies that the list of indicators, economic norms, and quotas set for the enterprise in five-year and annual plans "is determined by the USSR Council of Ministers." The law reaffirms the importance of focusing on five-year, rather than short-term, goals and of maintaining the stability of the five-year plan—elusive objectives that previously had been stressed in the October 1965 and July 1979 decrees on economic planning and management. With the aim of improving regional planning, the law also calls on enterprises under republic jurisdiction to coordinate their five-year and annual plans with the republic councils of ministers and local soviets. This stipulation had been included in a July 1986 decree that was designed to increase the local soviets' role in socioeconomic development.⁷

⁶ The self-financing experiments at the Frunze Machine-Building Production Association in Sumy and the Volga Motor Vehicle Plant in Tol'yatti have been extended this year to all of the enterprises under seven ministries and to 36 associations and enterprises under 17 others.

⁷ These plans call for coordination on matters concerning "the development of the social sphere, services for the population, consumer goods production, construction, the numerical strength of the work force, the utilization of labor resources, local raw and other materials, secondary resources, environmental protection, the use of soil, water, and forest resources, and other indicators established by law."

The draft law also allows enterprises producing consumer goods to base their production plans on orders from their customers—a clear response to Gorbachev's effort to make the economy more responsive to changing consumer demands. Like the May 1986 decree on which it is based, however, this provision is weakened by its failure to allow those enterprises to choose their own suppliers and by the continued priority assigned to centrally set targets.

Supply

According to the draft, enterprises may acquire their needed resources either through the current allocation system or through "wholesale trade" procedures, but wholesale trade "must" expand and become the "main form" of material and technical supply. This provision may be encouraging to a number of Soviet economists who were openly critical of the timidity of the March 1986 decree on wholesale trade that applied primarily to enterprises of "nonproduction" ministries, such as the Ministry of Culture.⁸ The draft law contains no timetable for the transfer of additional enterprises to the wholesale trade system. Nor is there any indication that this system will evolve into something approximating a market economy concept of wholesale trade that would allow enterprises to choose the enterprises from which they buy and to which they sell. Under the 1986 decree, designated enterprises no longer have to obtain advance authorization from Moscow but can take their orders to their local branch of the State Committee for Material and Technical Supply, which will then provide the equipment from its own supply base or put the enterprise manager directly in touch with a supplier. Reform-minded Soviet economists who criticized the timidity of that decree fear it might meet the same fate as a similar effort in 1965, which failed because of bureaucratic resistance and the forced state of tautness in the economy that makes derationing of producer goods difficult to accomplish.

⁸ According to an article by V. Lagutkin in *Sotsialisticheskaya Industriya*, only 2 percent of all Soviet enterprises were operating under wholesale trade procedures as of 8 August 1986.

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Incentives

The draft explicitly and strongly endorses Gorbachev's effort to reverse the wage-leveling trend of the Brezhnev years and to create a closer relationship between the workers' pay and the amount and quality of work they produce—a move that threatens the livelihood of those workers who have been riding the coattails of their more productive colleagues. Although a wage reform issued in September 1986 amounts to a pay increase for many categories of workers, the law reiterates that enterprises must finance these increases from their own resources and suggests that they do so by reducing their work force and increasing productivity.⁹ The endorsement of increased differentials in wages is accompanied by another provision, absent from the 1965 law, that gives enterprises the right to give preferential treatment in the allocation of housing to certain highly skilled specialists and workers. The law also calls on the enterprise to reduce the relative proportion of funds channeled into the maintenance of management personnel. This provision reflects a June 1986 decree that established wage fund norms for management personnel and that was designed to reduce the overall number of managers. []

Prices

A major weakness of the draft law is its failure to deal with the issue of price reform. It makes no real progress toward Gorbachev's announced goal of more "flexible" pricing and in some respects seems even more restrictive than the 1965 law with regard to enterprise rights in that area.¹⁰ Reflecting concerns that increased pressures to operate at a profit might lead to inflated prices, the new law specifies that any "unjustified profits" earned through "breaches of

⁹ Under the reform, workers' wage rates are to go up by 20 to 25 percent, on the average, while the increase is 30 to 35 percent for engineering and technical workers and 40 to 45 percent for designers and foremen. Enterprises are to transfer to these new pay rates gradually—over a number of years—as they accumulate the necessary resources through increased productivity. []

¹⁰ Although Gorbachev has never suggested abandoning the system of administered prices, he has called for more flexible prices that reflect not only the costs of production but also other factors such as social utility and demand. []

state price discipline" are liable to appropriation and that any enterprise earning such profits must pay a fine equivalent to the profit. []

[] pricing policy remains a highly contentious issue, and Abel Aganbegyan, a reported adviser to Gorbachev, predicted in January that any reforms in that area would require "two to three years of preparation." []

Foreign Trade

One heading in the new law—"foreign economic activity"—was not addressed at all in the 1965 law because it was only in September 1986 that selected Soviet enterprises were given the right to trade directly with foreign firms.¹¹ Thus far, only 70 enterprises have been given this right, and the law makes no provision for expanding that number, noting only that enterprises "may be granted the right" to carry out import-export operations directly. The decree also allows for the establishment of joint ventures with Western and other foreign countries but treats this topic only in a general way, presumably because the more detailed regulations governing the establishment of such ventures were published separately in January. []

Prospects

The publication of the draft law has generated a lively discussion that reflects what appears to be an intense political battle over the scope and scale of economic reform. The draft law's provisions affect the interests of all key economic actors:

- The more highly skilled and productive workers presumably welcome the increased wage differentials endorsed by the draft. According to Aganbegyan, however, many of their coworkers have

¹¹ The enterprises' right to engage directly in foreign trade is limited to "above-plan" production, and the enterprises can keep part of the resulting revenues only if the Foreign Trade Bank approves of their intended use of the funds. []

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Figure 5. Premier Nikolay Ryzhkov heads the commission that is considering proposed revisions in the draft. [redacted]

become accustomed to “receiving a good income and doing little work” and regard the assault on wage-leveling as a threat to their livelihood. Both the high performers and the underachievers seem sensitive to the job uncertainties raised by the bankruptcy provision and the possibilities of reduced bonuses resulting from the new quality-control system.

- Many successful enterprise managers have publicly applauded the draft’s effort to increase their autonomy and are eager to prove their managerial skills. Other managers, however, probably fear the prospect of failure in the absence of close ministerial supervision and assistance in bailing out factories that are performing poorly.¹² Many managers also have expressed serious reservations about the proposed “democratization” of managerial appointments.

- [redacted] many ministry officials regard the draft as an attempt to undermine their authority—an attempt they can be expected to resist as long as they continue to be held accountable for the performance of their subordinate enterprises. [redacted]

Attitudes within the Soviet leadership toward the law are more difficult to determine. There are some signs that Gorbachev is maneuvering to strengthen the

law’s language. It was he who proposed that the draft be published for nationwide discussion before its adoption—a procedure usually reserved for only the most important documents, such as the Party Program—and that process has allowed more radical proposals to be publicly aired.¹³ In his speech to the trade union congress in February 1987, Gorbachev made it clear that the draft was not to be regarded as the final word, but that it provided a “basis for broad discussion and . . . the writing of a good law.” His words have since been echoed by Premier Nikolay Ryzhkov and Lev Zaykov, the senior party secretary for industry—suggesting that his efforts to strengthen the law have the support of at least two key leaders.

A prominent Soviet economist recently told a Western official that the debate over the draft law also is being used to prepare the groundwork for the Central Committee plenum on economic management.¹⁴ The range of that debate recently was broadened by an article written by economist V. Yefimov and reform advocate Tat’yana Zaslavskaya that used criticism of the draft law as a point of departure for proposals that challenge the basic precepts of the Soviet command economy. Among the most radical proposals in their article were the elimination of plan targets and centrally determined wage scales—measures the authors charged were essential for genuine enterprise autonomy.¹⁵ [redacted]

Conceivably, Zaslavskaya is taking advantage of relaxed censorship to promote a radical agenda without Gorbachev’s sanction. Given her reported connection

¹³ The following exchange during a July 1986 speech Gorbachev delivered in the Khabarovsk region suggested an effort to drum up support for a strong law as a means of pressuring his Politburo colleagues: “Perhaps it would be worthwhile to promulgate the draft of this law?” (Voices from the crowd: “Yes, yes.”) “I shall report your opinion to the Politburo.” [redacted]

¹⁴ The plenum will probably precede the Supreme Soviet session and is likely to authorize the law’s final language. [redacted]

¹⁵ Instead of centralized allocations of supplies, Zaslavskaya called for a system that would allow enterprises to establish their own arrangements with their suppliers. And, in place of expenditure-based prices, she proposed a flexible system that would also include “ceiling” and contract prices. [redacted]

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Criticism of the Draft

Much of the public criticism of the draft law has centered on its lack of genuine legal protection for the enterprises in their dealings with superior agencies. For example, Vladimir Laptev, head of the Economic Law Sector at the Institute of State and Law, recently complained:

The point is that the law is not only a political but also a legal document, and some work still has to be done on it from the legal point of view, particularly as far as vertical relations are concerned. In a number of cases, we have provisions in the draft saying, for instance, that a higher organ should do this or that—that it 'should.' That is all very correct, but what would happen if the higher organ violated that provision? And often we cannot find a reply to that. []

This critical attitude was also apparent in viewers' responses to a Leningrad television program on the draft law. Only 23 percent of those who called in said that the new law, as currently written, would have a positive impact on the enterprise where they worked, while 44 percent thought it would be beneficial only if amended. Thirty-two percent of the callers—and 54

percent of those who identified themselves as enterprise managers—thought it would have a negative or negligible impact. Gorbachev probably welcomes this kind of criticism, given his emphasis on the necessity of putting teeth in the law. []

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On the other hand, Gorbachev's insistence on a frank public discussion of the draft may have also prompted some unforeseen criticism of measures he supports, such as the multiple-shift system. For example, in the following exchange that took place during a roundtable discussion of the draft, an enterprise director rightly points out that the imposition of that system is inconsistent with the effort to give enterprise managers greater decisionmaking authority:

(Enterprise director) *I propose scrapping the provision on multiple shifts completely. Self-financing and the economic levers will force enterprises to make more intensive use of equipment.*

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(Moderator) *So you mean that it will sort itself out automatically.*

(Enterprise director) *Absolutely.* []

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to Gorbachev and her longtime association with his adviser Abel Aganbegyan, however, it seems likely that at least some of her ideas have Gorbachev's support.¹⁶ At the very least, the publication of the article has put those on the conservative end of the spectrum on the defensive. []

The fact that both Zaslavskaya and enterprise manager Nikolay Travkin, a Gorbachev favorite, who has been highly critical of the draft's ambiguities, were

allowed to argue their cases in the central press suggests that some significant alterations are likely to be made when a review commission, headed by Ryzhkov, finishes its work (see appendix B).¹⁷ Gorbachev also may be counting on new regulations governing the USSR ministries, which are scheduled to be discussed at the plenum, to help redefine their mission and reduce their interference in enterprise business. []

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¹⁶ Aganbegyan formerly headed the Novosibirsk institute where Zaslavskaya works. [] Zaslavskaya and Gorbachev became both professional and personal friends while he was serving in Stavropol'. During this period, parallel agricultural projects were carried out in Stavropol' and Novosibirsk, and Gorbachev reportedly consulted regularly with the Novosibirsk project director—Zaslavskaya. []

¹⁷ A prominent Soviet economist recently told a Western official that Ryzhkov had called a meeting of the most influential economists after the January 1987 plenum. Its purpose was to give impetus to reform by setting plans in motion for the coming plenum on economic management in June. The economist said it was Ryzhkov who defined the process and gave them their marching orders. []

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Although the language of the draft law is broad, it endorses nearly all of the management ideas Gorbachev has espoused and gives him room to push those ideas further. The broadness of the language also presents ample opportunities for resistance, however, not only from ministry officials reluctant to relinquish their authority, but also from those enterprises unwilling to shoulder the responsibilities that would accompany their increased independence.

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Appendix A

Key Revisions of the Law

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The agencies of economic guidance must ensure strict observance of the rights of the enterprise and control over fulfillment by the enterprise of its obligations. . . . The plan assignments approved for the enterprise may be revised by the superior agency only in exceptional cases. . . . The superior agency and the party-state control agencies check on the activity of the enterprise.

The director of the enterprise is appointed and relieved of his post by the superior agency.

The assistant directors of the enterprise, the chief accountant, and the head of the technical control department are appointed to and relieved of their posts on the director's representation to the superior agency. . . . The foreman is appointed, transferred, and released from work by order of the enterprise director.

1987

Under the conditions of full financial autonomy, the enterprise . . . can make decisions on all production and social questions provided they are not contrary to legislation. . . . It is incumbent upon the superior organ to . . . strictly observe the enterprise's rights and to assist it in exercising them to the full without interfering in its operational economic activity. . . . It is incumbent upon the superior organ to monitor the enterprise's activity, compliance with the law, and the safeguarding of socialist property. . . . The superior organ may give the enterprise instructions only within the limit of the powers vested in it by law. Any losses suffered by the enterprise as a result of obeying orders issued by a superior organ in breach of the enterprise's rights are reimbursable by the organ that has issued such orders. Disputes on the question of reimbursement of losses are resolved by the State Board of Arbitration.

The leader of an enterprise . . . is elected at a general meeting (conference) of the labor collective by secret or open ballot (at the discretion of the meeting or conference) for a five-year period, and his appointment is confirmed by a superior organ. [He] can be removed from office by the superior organ following a decision by a general meeting (conference) of the labor collective or, if so empowered by the collective, of the labor collective's council.

The leaders of subdivisions—production units, shops, departments, sections, livestock units, and links—as well as foremen and team leaders, are elected by the corresponding labor collective under the same procedure for a two-to-three-year period and their appointments are confirmed by enterprise leaders. The aforementioned leaders can be removed from office by enterprise leaders, following a decision by the corresponding subdivision's collective.

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Production conferences function at the enterprise and in major shops, divisions, and livestock sections for the broad enlistment of workers and employees in participation in the solution of production questions. . . .

Meetings of the personnel of the enterprise . . . discuss draft production plans, the results of plan fulfillment, draft collective agreements . . . and questions of production, everyday and cultural services to workers, and the utilization of the enterprise fund (consumer goods fund). The administration of the enterprise reports to the meetings on the measures effected to carry out the decisions of previous meetings.

Reorganization or liquidation of an enterprise is carried out by decision of the agency that is empowered to form enterprises of its type.

(No reference to multiple shifts)

1987

The general meeting of the enterprise's labor collective is convened by the labor collective council . . . at least twice yearly. . . . During the period between meetings, the powers of the labor collective are exercised by the labor collective council [which] works in close contact with the administration and with the party, trade union, and other public organizations. . . . [The council] is elected by a general meeting. . . . by an open ballot for a 2 to 3 year period. Workers, team leaders, foremen, specialists and representatives of the administration and of party, trade union, Komsomol, and other public organizations can be elected to the council. . . . Decisions on questions of social development, labor organization, and wages are made by the labor collective council and the enterprise's administration within the limits laid down by law and in conjunction with the trade union committee and the Komsomol organization. . . . In the event that the enterprise administration disagrees with the labor collective council, the question is resolved at a general meeting of the labor collective.

Enterprises' activities may be terminated . . . if the enterprise has a long record of losses, becomes insolvent, or experiences a lack of demand for its output, or if measures taken to ensure profitable working under conditions of full financial autonomy . . . fail to yield results.

With a view to achieving a full return on production potential, the enterprise institutes a two-shift work system—or, in cases involving unique and expensive equipment and whenever necessary because of production conditions—a three- or four-shift work system. The adoption of a different work system by an enterprise is allowed subject to permission by its superior organ coordinated with the local soviet of people's deputies.

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(No reference to foreign trade activities)

1987

Enterprises affecting considerable export shipments of output may be granted the right to carry out import-export operations directly (including with markets in capitalist and developing countries) and to create financially autonomous foreign trade firms to this end. Enterprises with no right to independent access to foreign markets participate in determining the best conditions for exporting their output and services via foreign trade associations subordinate to their own or other ministries and departments. The procedures for creating joint enterprises and production facilities on Soviet territory and for their activity is determined by Soviet legislation.

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**The Fruits of Public Debate:
Proposals for Revision
Published in Key Central Newspapers ^a**

Article To Be Revised	Number of Proposals ^b	Chief Revisions Proposed
<i>Article 1. The Enterprise and Its Tasks</i>	4	(Insignificant)
<i>Article 2. Principles of the Enterprise's Activity</i>	6	Enterprise profits must not be appropriated by the ministry for distribution to other less profitable enterprises.
<i>Article 3. The Collective's Financially Autonomous Revenue and Its Distribution</i>	2	(Insignificant)
<i>Article 4. The Enterprise's Material and Technical Base and Resources</i>	2	(Insignificant)
<i>Article 5. Structure of the Association and Enterprise</i>	1	(Insignificant)
<i>Article 6. Management of the Enterprise</i>	47	Enterprise directors should not have to be "confirmed" by ministries. Elections must be by secret ballot only. There must be two or more candidates for each post. Labor collectives should have the right to recall managers before they complete their terms. There should be restrictions on the number of terms a manager may serve. General meetings of the labor collective should "confirm" as well as "oversee" an enterprise's annual and five-year plans.
<i>Article 7. The Enterprise's Labor Collective Council</i>	31	This article should be eliminated; there are already too many internal organizations that weaken the principle of one-man management. Article must clarify how the role of the labor collective council differs from that of the trade union council. The enterprise director should be prohibited from serving as chairman of the council. (Opinion was about equally split over whether the director and other top administrators should automatically receive membership in the council or be totally excluded to preserve the council's "independence.")
<i>Article 8. The Enterprise's Cadres</i>	11	The enterprise must continue to prepare a reserve pool of executive personnel and to plan for their professional careers. As a rule, candidates for elective posts in the enterprise should come from this pool.

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**The Fruits of Public Debate:
Proposals for Revision,
Published in Key Central Newspapers ^a (continued)**

Article To Be Revised	Number of Proposals ^b	Chief Revisions Proposed
<i>Article 9. Relations Between Enterprise and Its Superior Organs and Local Soviets of People's Deputies</i>	15	<p>The rights of the branch ministries must be sharply curtailed or they will continue to interfere in enterprise activities.</p> <p>It must be emphasized that orders from higher organs that result in losses for the enterprise are the responsibility of the organ that issued the order.</p> <p>To avoid excessive intervention, the law should specify which superior organ will conduct annual audits of an enterprise's production and financial/economic activities.</p> <p>There must be a limit placed on the number of workers who can be drawn away from their work at an enterprise by the local soviets to help with the harvest.</p> <p>Any limitation on the rights granted to enterprises by this law must be strictly prohibited.</p>
<i>Article 10. Planning</i>	14	<p>References to "control figures" should be deleted, because planning from above does not work. Annual and five-year plans should be developed by the enterprises on the basis of contracts with their customers.</p> <p>The paragraph on "counter plans" should be deleted. Counter plans do not work, because managers intentionally set a reserve aside ahead of time, and the plan is then set at a lower than optimum level.</p> <p>Any changes in the plan may be made only with the approval of the labor collective.</p> <p>It should be spelled out that the enterprise has the right to conclude supplemental contracts for above-plan production.</p>
<i>Article 11. Scientific and Technical Progress and Improvement of Quality</i>	2	<p>Although the draft calls for the enterprise to cooperate with the State Acceptance Service, it should also point out that the State Acceptance Service must cooperate with the enterprise and avoid viewing problems from its own narrow perspective.</p>
<i>Article 12. Retooling and Remodeling</i>	0	
<i>Article 13. The Labor Collective's Social Development</i>	11	<p>The enterprise's responsibility to improve working conditions must be emphasized.</p> <p>Housing construction must be speeded up whenever production is expanded.</p>
<i>Article 14. Labor and Wages</i>	27	<p>Superior organs should not set wage normatives. Such decisions should be made by the enterprises. ^c</p>

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Article To Be Revised	Number of Proposals ^b	Chief Revisions Proposed
<i>Article 15. Material and Technical Supply</i>	7	It should be emphasized that the State Committee for Material and Technical Supply bears complete responsibility for the timely fulfillment of orders placed by the enterprise for fuel, equipment, materials, and spare parts. It should be made clear that centralized distribution is only a transitional system, pending widespread adoption of wholesale trade.
<i>Article 16. Sale of Output, Work, or Services</i>	5	Every enterprise should have the right to sell some part of its output independently—not just the above-plan output, as specified in the draft.
<i>Article 17. Finances and Prices</i>	7	Enterprises should not be penalized for operating at a loss if that loss results from their failure to receive necessary supplies. No enterprise should be required to operate at a loss ("planned loss-making"), because this conflicts with the goal of self-financing.
<i>Article 18. Credit and Accounts</i>	2	(Insignificant)
<i>Article 19. Foreign Economic Activity</i>	2	(Insignificant)
<i>Article 20. Use of Nature and Environmental Protection</i>	2	(Insignificant)
<i>Article 21. Enterprises' Joint Production and Social Activity</i>	2	(Insignificant)
<i>Article 22. Accounting, Statistical Reporting and Monitoring</i>	4	(Insignificant)
<i>Article 23. Creation and Termination of Enterprise Activity</i>	2	When liquidating an enterprise, the superior organ must have the agreement of the All-Union Central Council of Trade Unions and the State Committee for Labor and Social Problems. The released workers must be guaranteed the rights established by the USSR Constitution and other legislation.
<i>Article 24. Features of the Application of the Law</i>	0	There were also proposals to add new articles to the law that would "guarantee" enterprise rights; deal with the relationship between state enterprises and cooperatives and individual labor activity; and establish a mechanism for resolving disagreements between an enterprise and a ministry.

^a This survey covers proposals published in *Pravda*, *Izvestiya*, *Ekonomicheskaya Gazeta*, and *Sotsialisticheskaya Industriya* from 8 February to 8 April 1987.

^b Only a small percentage of the proposals received by these publications was published. For example, *Pravda* reported that it received 3,300 letters about the draft law during this period.

^c This revision was the proposal most frequently cited in the publications covered by this survey.

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